

## AN AUDIT FOR ETHICAL SUPPLY CHAIN MANAGEMENT

Netta Mäki

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Supervisor: Susan Grinsted  
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<b>Author:</b> Netta Mäki
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<b>Objectives</b>  The main objectives of this study were to recognize parts of the supply chain where ethical issues are most prominent, create an audit based on these issues for companies to check the performance of their supply chain, and interview companies on whether the audit can actually be used in real life.
<b>Summary</b>  Supply chains are becoming more and more complex and international. To combat all kinds of ethical issues in different parts of the supply chain, literature on the topics of supply chains, supply chain management, and ethics was researched. An audit was made based on the findings, and the accuracy of the audit was checked conducting interviews with businesses.
<b>Conclusions</b>  It is possible to use an audit to check the ethicality of a supply chain, and an audit including the main issues regarding ethical supply chain management that does not limit the variety of companies that could use it can be created. The audit can act as a summary of the most pressing ethical issues, and can be used to check both the company's own and their partners' state of ethicality in the supply chain.
<b>Key words:</b> supply chain, supply chain management, ethics, business ethics
<b>Language:</b> English
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# **1. INTRODUCTION**

## **1.1 Background**

Ethics, sustainability, and corporate social responsibility are the trend words of a modern conscious customer. Society is starting to demand more action from companies and a growing amount of consumers are interested in the actual creation and background of the products they use, and whether they have been created in an ethical manner. Other major stakeholders are creating pressure too. For instance, major shareholders could straight out demand that companies invest in ethicality and sustainability. Ethicality is thus a relevant concern for every company. Supply chains being multileveled and including a mix of different processes and activities create a new kind of challenge for companies wanting to be ethical.

## **1.2 Research Problem**

The general thought among people is that the main goal of every company should be to maximize profit. In the modern world, companies can find this hard to do without thinking about ethical practices as well. Corporate social responsibility (CSR) is already integrated into the strategic plans in most of the companies, especially the most successful multinational ones. However, it is not enough that the companies themselves advocate ethical and sustainable practices and focus on these relevant issues. They need to extend these efforts to all the companies they collaborate with as well, and work on actively bettering their understanding of what ethicality in the context of supply chains actually means.

Companies need to focus on creating environmentally and socially friendly supply chains in order to satisfy stakeholders, and to maximize quality and gains from the modern day conscious consumers. However, this needs to be done without losing efficiency. I want to understand what makes a supply chain ethical, and explore the possibility of companies effortlessly but efficiently checking the ethicality of their supply chain. In addition, I want to combine the research and knowledge I have managed to gather into an simple audit for businesses of all industries, sizes, and origins to use.

### **1.3 Research Questions**

I am most interested to find an answer for these questions:

1. What factors of supply chain management are relevant for an ethical practice and overall ethical business behavior?
2. What is the difference with ethical and sustainable supply chain management and are they intertwined somehow?
3. How can ethicality be identified in supply chains and how to measure whether it is present or not?

### **1.4 Research Objectives**

Specifically, I would like

- To find out where in the supply chain there are generally the biggest deficits regarding ethical management.
- To explore how sustainability could be linked into ethics.
- To apply the important factors in ethical supply chain management I found in my research to create a simple audit for ethical and sustainable supply chain management.
- To test the audit in real life to see whether it could actually be used by companies.



## **2. LITERATURE REVIEW**

### **2.1 Introduction**

The purpose of this literature review is both to understand the concepts of supply chain, supply chain management, ethics and ethics in business, and sustainability in its many forms. Charting the existing literature on these topics will provide a base for the justification of why companies need to have the possibility to use an audit for ethical supply chain management, and what are the possible benefits of using one.

The sections in this literature review are arranged according to themes. The first section defines the supply chain and supply chain management. The second section focuses on ethics and ethical businesses, followed by a section on sustainability and corporate social responsibility. The fourth section combines the aforementioned topics and looks at existing research done on ethical supply chain management, and its relevance. The literature review will end with a conceptual framework and a conclusion.

### **2.2 Supply Chains**

Very few companies manage to produce their products completely on their own. Buying from or selling to another company or person creates a supply chain. Mentzer et al. (2001) mention a few different definitions for supply chains. They quote La Londe and Masters (1994), who explain supply chains literally as a chain of raw materials going forward, and Lambert et al. (1998), who explain supply chain as the market gaining products and services by companies aligning (p. 3). In the end, Mentzer et al. (2001) end up creating a definition of their own, explaining supply chains to be a construction of three or more companies or individuals partaking in the flow of products to get them from a source to the market and the customer.

According to Scott et al. (2011), the most straightforward supply chain consists of three parts: the focal company, its supplier, and its customer. This is also called a direct supply

chain. However, with bigger companies this is rarely the case. The supply chain can go on with the original supplier having a supplier, meaning it grows upstream towards supply. It can also expand downstream towards demand, with the original customer having its own customers creating an extended supply chain. The supply chain is called an ultimate supply chain when all the multiple actors in both upstream and downstream processes are considered together (Mentzer et al., 2001). The supply chains of bigger companies providing complex products are more like large networks, including suppliers and customers from all over the world. Thus, the term supply chain can at times be a bit misleading. One company can also have multiple different supply chain roles for other companies in the industry. It is possible to be a competitor, a supplier, and a subcontractor all at the same time for instance in the defense industry (Eltantawy et al., 2009).

### **2.2.1 Globalization in Supply Chains**

As globalizations continues to be a growing trend, the borders of supply chains are disappearing. Outsourcing parts of the supply chain, or giving responsibility of a function of the supply chain, like manufacturing or packaging, to other companies has been common for years, and the trend keeps increasing (Scott et al., 2011; Calton & Daboub, 2002). Nowadays, almost any part of the supply chain can be outsourced. With some of the companies, especially the bigger ones, partners that take control over supply chain activities are more often than not located in different countries. It brings a completely new international aspect to supply chains, and unfortunately a completely new set of issues for managers to think about. LeBaron (2014) argues that there is enough proof to state that employees face the risk of lower rights and standards when outsourcing and subcontracting. According to Calton and Daboub (2002), the move from so-called traditional organizations to organizations without boundaries has made it challenging to monitor the actions and decisions made, as well as to reinforce the following of contracts. Scott et al. (2011) name for example disappearing control over customer relationships due to dissipating contact with them when outsourcing product transportation as a possible new issue. Ferrell et al. (2013) stress the importance of similar values for both the companies to achieve what they wanted from the contract. Efficiency, effectiveness and economic gain can be achieved by clever outsourcing.

### **2.2.2 Supply Chain Management (SCM)**

Supply chain managers have a multitude of different functions of the supply chain to consider, including but not limited to managing inventory, buying resources, selling the product or service forward, actually manufacturing the product, possible deliveries to customers, and handling possible returns. Supply chain management (SCM) can be described in a multitude of ways that stretch from operational terms to management philosophies, and create some confusion for researchers and business professionals (Mentzer et al., 2001). The subject has been studied to a great degree, but there has been no consensus on one single definition. Mentzer et al. (2001) see supply chain management as “a systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain” (p. 18). This coordination is done to achieve good long-term performance for both the supply chain and all the companies involved.

Ferrell et al. (2013) claim that the conversation about supply chain management’s theoretical parameters is still ongoing, especially regarding what should be included in the definition of supply chain management. They refer to the definition made by Lambert and Cooper (2000) in their research, and state that supply chain management is the management of logistics, relationships between parties in the supply chain, and numerous marketing activities. (p. 262). Childerhouse and Towill (2011) see the study of supply chain management to be quite complicated because of the multitude of relationships and interactions occurring between businesses.

Supply chain managers have the responsibility of making sure the supply chain operates effectively. The scope of supply chain management is large, and thus, the managers are responsible for monitoring and controlling a multitude of different activities. The supply chain can be divided into larger groups of activities: procurement or sourcing, production, distribution, sales, and returns. These groups can further on be divided into individual activities. Procurement includes for example finding materials, suppliers, and employees. Regarding production, managers need to think about where to produce, what, and when, as well as how much. Distribution encompasses getting the finalized product and all its components and materials in the right place at the right time, and sales means actually

finding a way to effectively sell your product to someone. In addition to all this, managers might have to consider the reverse supply chain as well, meaning they have to work out all the things related to customers returning their products for one reason or another (Scott et al., 2011). Not every manager has to worry about all of these activities, because every company does not necessarily include all of the aforementioned activities in their supply chains. Again, outsourcing is an option for companies too. This creates new challenges for the supply chain managers, who have to find companies to work with and maintain a good and open relationship with the partners. Getting the supply chain to work smoothly requires immense planning and a strong strategy. Because of the multitude of activities going on in the supply chain, managers could face ethical problems on numerous different fronts.

Having explained the key points to supply chains and supply chain management, we will continue with looking at the existing literature regarding ethics, the other main concept of this thesis. Ethical supply chain management combining both these topics will be reviewed later.

## **2.3 Ethics**

Based on “ethikos” and “ethos”, the Greek words for custom or usage (Wiley, 1995), ethics is generally regarded as the study of what is morally right and what is morally wrong, and looks at what people should and should not do. The term ethics can be associated to an extent with the term morality, usually defined as “the ability to choose between right or wrong” (Joyner & Payne, 2002: 300).

However, people value different things and have contrasting opinions, and thus see the right thing to do differently. According to Wiley (1995) this is why ethics is usually explained using behavioral terms. A person with good morals and ideals that guide the behavior is an ethical person. The relativistic point of view sees that there are no universally shared ethical rules. Thus, right behavior is the behavior, which is practically accepted, or accepted by the culture (Ha & Nam, 2016).

The terms legal and ethical do not mean the same thing. Legal means something mandatory; you have to or cannot do something because the law states so. Nevertheless, like Boomer et al. (1987) point out, many ethical decisions are based on what is legal and what is not. Carroll (2015) describes the law as kind of a systematized collection of ethics.

### **2.3.1 Ethics in Business**

Modifying the normative definition of ethics to fit the field of business, business ethics is typically seen as what companies or the people in charge in them should or should not do. (Carroll, 2015). There is ongoing debate on whether business ethics is relevant, because a business consists of individuals that make the ethical decisions. “Ethics reflects the character of the individual and more contemporarily perhaps, the character of the business firm, which is a collection of individuals.” (Wiley, 1995: 22) Svensson and Bååth (2008) quote Berenbeim (2000) as their justification for the constantly growing importance of business ethics. The three trends Berenbeim mentions are globalization and the need for universally uniform core values and principles, affirming the values and principles, and the growing ethical knowledge and understanding of senior managers (p. 399).

Carroll (2015) sees that the existing laws are needed but do not fulfill are the expectations of the society. For this reason, the society also expects ethical behavior from businesses. All businesses should consider the norms, standards, values, and expectations from their stakeholders and the society as their ethical responsibilities and the behavior of the firm needs to be accustomed to these expectations in order for the firm to be called ethical. (Joyner & Payne, 2002; Carroll, 2015). Joyner and Payne (2002) highlight two typical reasons for companies to pursue ethical business practices: the desire to do the right thing without pressure from outsiders or the desire to make stakeholders see that the firm is performing according to what is presumed to be the right thing to do. Kaler (2000) identified different motivators behind businesses’ decisions to be ethical, and categorized them into positive and negative ones. Positive motivators make companies behave ethically to gain a reward, and negative ones to avoid punishment. The motivators can also be internal or external, and the external motivators can further on be divided into governmental and non-governmental motivators.

Blome et al. (2017) recognize multiple different points of view regarding business ethics in the existent literature. The theory of ethical egoism alleges that actions are ethical if the doer benefits. Utilitarianism, which is a popular perspective of ethical behavior, sees that the most morally correct actions are those that benefit the most people. In business ethics, this would mean that as many stakeholders as possible would benefit from the decisions made. Virtue ethics, on the other hand, highlights the importance of individual characteristics and virtues influencing behavior (Blome et al., 2017).

Carroll (1991) implies that ethics and morality mean the same thing in the context of business ethics. He goes on to differentiate three different ethical management styles: immoral, amoral, and moral. Every company should want to encourage managers to adopt the moral management style, meaning the managers adhere to ethical norms that encourage “right” behavior, and value stakeholder and customer opinions.

It is not enough for a firm to just try to refrain from unethical decisions and practices to establish a clean and ethical picture, but companies should be able to portray intention behind ethical decisions (Blome & Paulraj, 2013). In order for employees to behave ethically in a company, ethical behavior needs to be expected, implemented, and enforced continuously (Wiley, 1995), meaning it is not enough to tell the employees to be ethical. Every manager and other higher-up needs to lead by example and actively enforce good ethical behavior. For example, Goebel et al. (2012) managed to determine that if the highest management behaved ethically, the firms tended to rely more toward environmentally and socially friendly and sustainable suppliers. In other words, the corporate culture of a company needs to be built on the thought of ethical behavior as being the norm in order for it to actually be the norm (Adams et al., 2001). The most common way to enhance an ethical corporate culture is to create a code of conduct. Adams et al. (2001) think that even just having an existing code of conduct can affect employee behavior to be more ethical. However, as pointed out by Bendixen and Abratt (2007), there are also people arguing against the effectiveness of codes of conduct, stating for example that they are usually too broad to be used.

Carter (2000a) sees business ethics as a part of corporate social responsibility, and thus builds on Carroll’s thought of corporate social responsibility as a four-tier pyramid, where ethical decisions are one part. Social and environmental responsibilities are not usually seen

as important factors when looking at business ethics. However, there is constant pressure from the society to behave sustainably and avoid harm to both the people and the planet. Thus, in this research, problems regarding corporate social responsibility are to an extent thought of as ethical problems as well.

### **2.3.2 Ethical Decision Making**

Ethical decisions are decisions where a person chooses something that can be seen as ethical or unethical, or in other words as right or wrong (Ferrell et al., 2013). There can be many different variables affecting a person's choice regarding an ethical decision. Individual variables and characteristics have been the focus of researchers for a while, but it has been proven that situational factors can also make a difference when making a choice (Adams et al., 2001). Blome and Paulraj (2013) list multiple studies that have proven the organizational context to possibly being even the biggest influencer in ethical decision-making.

There are a few different models for decision-making. Ferrell et al. (2013) explain two of them: the Ferrell-Gresham model and the Hunt-Vitell model. The Ferrell-Gresham model states that ethical decision making starts with understanding that the issue at hand has an ethical dimension, and highlights three different influencers in the decision process: individual factors, significant others or other people, and the actual opportunity. The Hunt-Vitell model focuses on evaluating the effects and possibilities of every action to figure out the possibility that provides the most benefits. It also explains the importance of probability, desirability, and importance of the individual actions and decisions.

Another model for ethical decision-making mentioned earlier by Ferrell et al. (2000) describes Rest's 1986 model. The process includes "recognizing moral issues, making moral judgements, establishing moral intent, and engaging in moral behavior" (p. 186). Boomer et al. (1987) recognized six steps included in most of the theories regarding rational decision-making process. These steps are creating objectives, looking for alternatives, evaluating these found alternatives and then choosing one, implementing the decision made, and finally monitoring the results. It is worth noting that the aforementioned models, or any ethical decision making models in that manner, are not that commonly used when looking at ethical decision making in companies. Instead, researchers typically focus on

certain individual variables, such as the relationship between buyers and sellers (Ferrell et al., 2013).

The concepts of ethics, corporate social responsibility, and sustainability are fairly interrelated. As stated by Eltantawy et al. (2009), a part of the authors in the field use business ethics and social responsibility interchangeably without any clear division between the terms, whilst the other part of the authors see ethics as a part of social responsibility. Thus, we will continue this literature review with focusing on sustainability as a separate concept in itself, and as a part of ethicality.

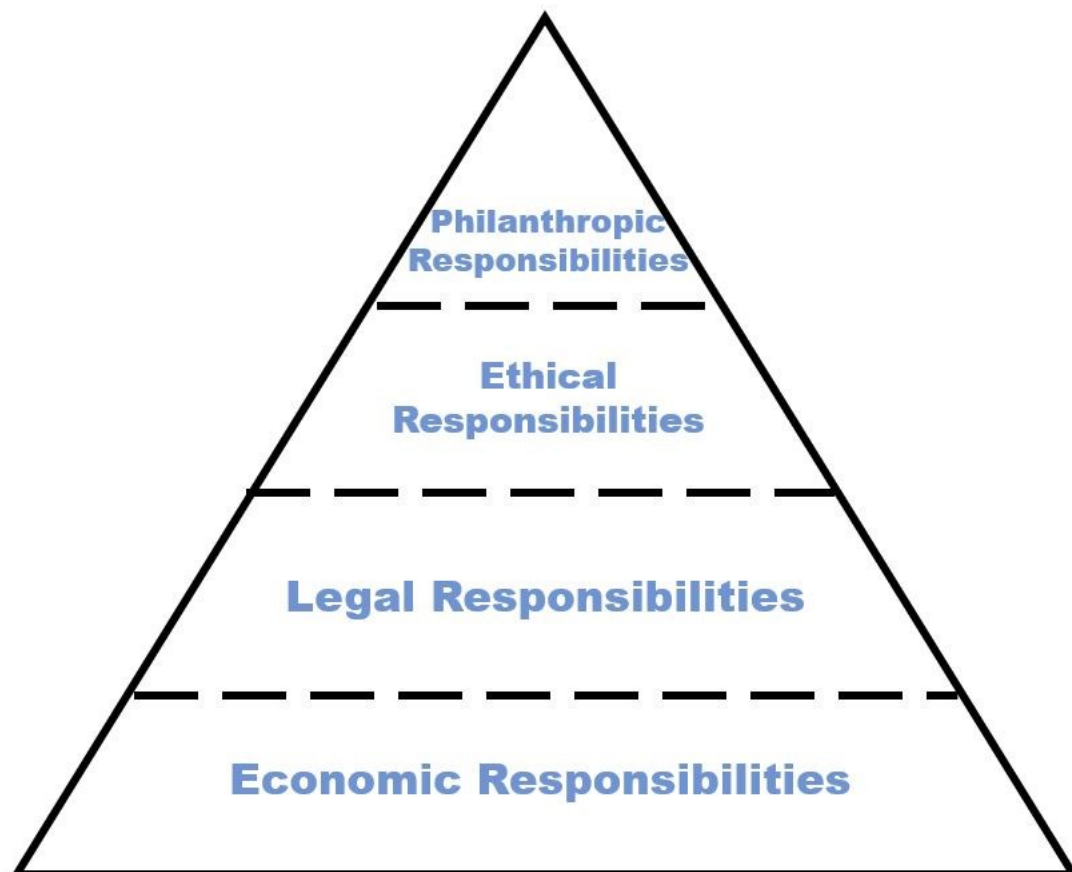
## **2.4 Sustainability and Corporate Social Responsibility**

The most often used description for sustainability according to Carter and Rogers (2008) is penned by the Brundtland Commission (1987). It portrays sustainability as “development that meets the needs of the present without compromising the ability of future generations to meet their needs” (p. 363). Carter and Rogers themselves define sustainability according to the popular triple bottom line theory. They think sustainability means unifying the responsibilities regarding the people, the planet, and the profit.

Throughout the years corporate social responsibility, or CSR for short, has been given many definitions, and as is the case with many of the other terms related to sustainability, researchers have not been unanimous in their decisions of which is the ultimate description for the term. Typically, CSR is seen as a company’s effort to be socially conscious, and the strive to do business in a manner that does not harm the society. Corporate social responsibility is not technically necessary for every company, because it is not required by the law. Nonetheless, nowadays the people, including for example customers and key company shareholders, demand that companies take action (Carroll, 2015). Bronn and Vidaver-Cohen (2009) recognized key motives for CSR in their research regarding legitimacy, that included for instance improving company image, being recognized for the efforts done for the people and the planet, and being a moral leader. The most well-known and used theories regarding corporate social responsibility in business are the triple bottom line and Carroll’s pyramid of CSR (Carroll, 1991). Carroll divided corporate social responsibility into four pieces: economic, legal, ethical, and philanthropic responsibilities



(Figure 1). These pieces can be arranged into a pyramid in the aforementioned order, economic responsibility being the largest bottom piece and thus most important, and philanthropy being the smallest and least important piece at the top. All of the pieces are needed for a corporation to be socially responsible.



*Figure 1: Carroll's Pyramid of Corporate Social Responsibility*

#### **2.4.1 Triple Bottom Line**

Triple bottom line is one of the basic theories of sustainability. It looks at three categories equal in size: the planet, the people, and the profit, or environmental, economic and social aspects, where true sustainability lies in the middle where the categories align. The profit part of the triple bottom line includes making sure the company is making as much profit and returns for the stakeholders as possible. The people part focuses on issues regarding both

individuals and the society as a whole, and the planet part highlights the importance of being as environmentally friendly as possible (Awaysheh & Klassen, 2010).

In a perfect world, every company would value these three categories as equally important, and thus be fully sustainable. However, this is next to impossible. Some people see that the main responsibility of a company is only to make profit, or make as much return for the stakeholders as possible. In this scenario, the company would only look at the economic part of the triple bottom line. However, it has also been argued that with the pressure of outside sources, like non-governmental organizations and customers, it is economically more profitable to take the environment and the society into consideration when making business decisions (Andersen & Skjoett-Larsen, 2009).

#### **2.4.2 Sustainable Supply Chain Management**

Seuring and Müller (2008) think sustainable supply chain management includes the management of both tangible and intangible assets and materials, and relationships and cooperation between parties of the supply chain whilst simultaneously setting goals for the company that abide by the three dimensions of sustainability: economic, environmental, and social. These goals should also follow the expectations and requirements of stakeholders. Carter and Rogers (2008) in turn define sustainable supply chain management as a firm achieving the three basic sustainability goals: economic, environmental, and social, by coordinating their business processes, also known as the supply chain, to improve the firm's and the supply chain's long-term economic performance.

Most of the existing literature on sustainable supply chain management (SSCM) seems to focus on why adopting a sustainable supply chain is worth it. Green supply chain management especially has been a large topic of discussion. Even though more and more companies are reaching towards attaining sustainable supply chains, researchers have found a few reasons for why not every supply chain is sustainable yet. Beske and Seuring (2014) note the different risks that threaten a sustainable supply chain. Some of the examples mentioned include having a limited list of companies to collaborate with, and a decline in the company image if the company's possible shortcomings in their sustainability efforts come to light. Su et al. (2016) call attention to how companies transforming their

supply chains need to divide their attention to multiple different sources, usually even outside the firm's functional boundaries, and consider the total effect of the supply chain on the environment. Seuring and Müller (2008) identify three usual obstacles in achieving sustainability: the cost, the effort, and the lack of communication. It can be highly expensive to redo the whole supply chain. In addition, it is also hard. Finding the right partners and methods is time consuming in the least. Blome et al. (2017) mention how a few scholars argue that companies should not strive for sustainable supply chains if it means losing profits. They go on to explain how the additional costs from moving towards a sustainable supply chain can even create a competitive disadvantage for the company.

Contrasting with the aforementioned opinions, some researchers have claimed that having a sustainable supply chain can be turned into a competitive advantage, due to for example gaining a better company image and happier stakeholders. It can also help the company keep their employees satisfied, and thus reduce employee turnover. Carter and Rogers (2008) explain how for example reducing packaging or improving fuel efficiency, which increases sustainability, can also actually lead to economic savings for the company.

Managing a supply chain's sustainability issues is no small feat. A possible solution pointed out in the existing research and literature includes having ethical sourcing initiatives (Roberts, 2003). Unfortunately, companies have not realized the value of these initiatives and failed to extensively adopt them.

## **2.5 Ethical Supply Chain Management**

Major companies, like Volkswagen in recent years, have been under large media scrutiny because of unethical choices they have made regarding their production. Thus, supply chain management ethics can be argued to be a relevant topic to discuss and research in the area of business (Svensson & Bååth, 2008). Goebel et al. (2012) state that managers do notice the growing pressure from external sources and that the biggest issue lies with the managers not being able to fit the requirements from external sources into the company's internal decision-making process. Unfortunately, research regarding ethical supply chain management is currently quite limited. Parts of the supply chain, for example the buyer-supplier relations, has been analyzed from an ethical perspective, but the whole supply

chain as a context has not been addressed extensively in existing ethical literature (Svensson & Bååth, 2008).

The main priority of supply chain management is to maximize performance, effectiveness, and efficiency, whilst being economically as profitable as possible. For this reason, most of the definitions of supply chain management do not take ethical decisions into account (Ferrell et al. 2013). Ha and Nam (2016) claim that unethical behaviors takes place in the supply chain when companies fail to see the importance and value of ethics. Eltantawy et al. (2009) state that ethical issues in the supply chain are likely to arise from the intricate web of relationships between all the parties involved. To add, Ferrell et al. (2013) see the extensive focus of supply chain parties on technology and cost effectiveness as another possible source of ethical issues, because with the focus elsewhere, the risk of not recognizing all the possible ethical concerns increases. Jennings (2013) indicates that companies following only the law and nothing else when managing their supply chains have bigger risks associated with their contracts, safety and public relations.

Carter (2000b) divides possible unethical practices in supply chain management into two larger categories: the organization's internal characteristic, and the external characteristics between organizations. In another article, Carter (2000b) also proclaimed that his research proved that buyers and their international suppliers see the same acts regarding the supply chain as ethical, therefore making the conclusion that cultural differences do not play a big part regarding ethical decision-making. However, there needs to be more research done on the topic of ethical supply chains from an international perspective addressing the bold statement, especially with the contrasting opinions of many other researchers in the field of ethics. It is hard to state all the actions that can be seen as unethical, because of the individual views on ethics and what is included in the supply chains. Nevertheless, there are a few actions that have been proven to be thought of as unethical in the eyes of the majority. Breaching contracts, unsafe working conditions, and for example poor product safety are internationally usually thought of as unethical business practices (Simangunsong et al., 2016; Ferrell et al., 2013).

Even though Ferrell et al. (2013) accentuate the difference between CSR and ethics, they still see them closely interrelated. They see ethics as related to the decisions made by

individuals or companies on acceptable behavior, and social responsibility more as how these individual decisions and actions affect the stakeholders and the society. Velasquez (1988) does not directly differentiate between corporate social responsibility and ethics either, but instead recognizes business ethics as a component of CSR and simultaneously as a justification for it. Because of the closeness of sustainability, CSR, and ethics, identical reasons to those stated regarding sustainable supply chain management are proclaimed to be the cause for companies not adopting ethical management in their supply chains. The biggest contributors seem to be the lack of money, time and administrative resources (Levin, 2008). The possible benefits of having an ethical supply chain also follow in the same lines as having a sustainable one. Blome et al. (2017) list for example the possibility for a better corporate image, happier stakeholders, and the attraction of new customers as possible positive reactions.

Svensson and Bååth (2008) bring forth the existence of a few models that can be used as a framework for ethics in supply chain management. For instance, Wood's (2002) partnership model, consisting of four levels, accentuates the importance of commitment to ethical culture, staff and shareholders, ethical organizational artifacts, and ethics in the marketplace. Jennings (2013) mentions four possible sources for managers to use in ethical supply chain management: The Sullivan Principles, the United Nations Global Compact, the International Organization for Standardization (ISO), and the Institute for Supply Chain Management (ISM) Supply Management Principles and Standards of Ethical Supply Management Conduct. All these sources have fairly similar origins. Some of the guides focus more on the people, so employees and the society, and some more on the environment or a mix of the two. Overall, all of the guides provide businesses with clear and universally acknowledged guidelines on ethical behavior in the supply chain, and thus every company wanting to be ethical should know of these four sources.

Like Carroll (1991) and Ferrell et al. (2013), this thesis will assimilate some of the decisions related to corporate social responsibility and sustainability as ethical issues. In the modern world, as we continue moving towards a more knowledgeable customer base and stakeholders, it is essential for firms to see some of the possible problems related to these topics as ethical problem too. Ignorance in considering and dealing with problems can get any company into extensive trouble.

## 2.6 Conceptual Framework



*Figure 2: Conceptual Framework*

This conceptual framework (Figure 1) shows the main reasons for having ethical supply chain management. Stakeholder pressure for ethical products is huge. Business ethics is also being researched more and more, and thus the knowledge of the subject increases, creating more reasons for why companies should be ethical. Sustainability and social responsibility are also modern hot topics, and the most used CSR frameworks include an ethical dimension. This goes back to the constantly growing pressure both from outside and inside the firm, because when the customers or stakeholders demand sustainability or social responsibility, they demand ethicality at the same time. Globalization creates a new level of uncertainty in companies that outsource parts of their supply chains. It is almost impossible to keep in contact with all the suppliers and customers, and thus there can be uncertainty on their views and values. If firms incorporate ethicality in their supply chains, they at the same time promote it to all their partners. Outsourcing raises another possible ethical question as well; should businesses in different countries follow similar ethical guidelines even though differing cultures and habits (Enderle, 2015).

## **2.7 Conclusion**

Overall, the literature on ethical supply chain management is still lacking and further research needs to be done on the subject. With the supply chains of companies continuing to grow beyond country and culture limits, it is becoming more difficult to keep up with what the suppliers and customers are up to and to maintain positive relationships (Daboub, 2002). Seal (2013) points out the importance of companies not only being okay with what they buy but also with the ones providing them with the goods. Companies need to collaborate with other firms upholding similar values and morals, and maintaining a cross-organizational culture where these values are coincided. Unfortunately, it can be difficult and time-consuming to actually verify this and look for collaborators in a smaller pool of possibilities.

Companies and managers are largely starting to acknowledge the correlation between good ethics and morals in a company and positive economic results (Joyner & Payne, 2002). Having an ethical supply chain is a good guarantee of quality as well, because managers have better control of the production (DeLaurentis, 2009). Unfortunately, there is no constant way to check ethical performance in purchasing and sales situation yet (Carter 2000a).

Creating an audit listing basic ethical principles could be used by any firm. An audit for ethical supply chain management could help companies analyze the current state of their supply chains, as well as take action in order to satisfy customers and stakeholders, and even profit in the long run. There is no research done on universally shared values and principles regarding ethical supply chain management, but having an audit could promote ethical behavior around the world, help alleviate environmental problems we face, and help create and promote a safer way of working.

### **3. METHODOLOGY**

This part of the thesis focuses on information collection for the audit. The information will be presented and analyzed in the next parts.

#### **3.1 Benefits of Audits**

Governmental regulations around the world have increased the reputation of conducting audits to check different standards of global supply chains. LeBaron et al. (2017) find the trend to contrast with the findings of their empirical study. They found out that auditing global supply chains is usually a bad way to expose, report, and solve problems related to the environment, because of the possibility of for example issues with differing opinions on the problems, and possible disputes between the parties involved in the auditing process. Even so, other researchers have found multiple benefits in conducting audits.

Lee and Novac (2014) think an audit could help supply chains improve in a straightforward and effective way. In general, there are multiple benefits to having audits. They help companies find vulnerabilities and manage risks, in addition to increasing company control (Carmichael et al., n.d.). Checklists have been proven to help people remember things better, and in some cases, they raise the baseline standard of performance, especially combined with actively educating the employees and partners (Gawande, 2010). They can also help people realize possible problems and solutions, prepare for the future, and additionally, they are an inexpensive way in the long run to check performance. Using audits could also communicate company values and make the company more transparent, which in turn could have a positive effect on the company image (Seal, 2013). Ethical audits in particular could help companies avoid marketing dangerous products (Gonzales-Padron, 2016).

#### **3.2 Data Collection for the Audit**

This thesis was created using both primary and secondary sources. The first stage of data collection was looking at secondary resources and creating an audit based on conclusions done in previous literature. Having looked at the existing literature and research done in the literature review section on the topics of supply chains and supply chain management,



ethics, and sustainability and social responsibility, an audit was created integrating all of the subjects of the supply chain of highest importance to the overall ethical performance of a company.

The audit includes both the topics mentioned most in the literature as well as the topics from sustainability that are universally considered as ethical issues in the modern society. With the current research lacking details regarding the specific issues of every part of the supply chain, the audit was done in a broader way according to the existing research. One of the main guidelines used for the creation of this audit was “the six Ts” method to check quality especially in food products by Roth et al. (2008). They used the framework to check the quality of supply chains especially regarding food products. The six stages of this framework are traceability, testability, transparency, trust, time and training. All of these stages have been adapted to the use in any supply chain, and are key components of this audit.

It is hard to straight out say what is good practice regarding ethicality in the supply chain. Every country, culture, business, and individual values different things and have different morals that base their views on ethicality. In this audit, good practice has been identified using the existing literature summarized in the literature review, as well as existing standards on ethicality and sustainability.

The companies using this audit can identify their supply chain practice based on a five-point Likert scale. The five points are: strongly agree, agree, neutral, disagree, and strongly disagree. A Likert scale was chosen because of the easiness of it. Likert scales are universally used to measure attitudes and agreeableness, and are easy to understand and analyze (Allen & Seaman, 2007; Cooper & Schindler, 2014).

See Appendix 1 for the audit for ethical supply chain management.

### **3.3 Data Collection from Companies**

After the completion of the audit, it was sent to two companies for feedback. The companies were chosen based on their differing industries, practices, and sizes to get a wider range of perspectives and thus a better selection of feedback. Both companies also had international

supply chains. Both companies were guaranteed anonymity, and both permitted the use of their answers to analyze and better the audit for ethical supply chain management.

The interviews that were conducted were structured interviews to address the objective of this thesis as efficiently as possible. The last two open-ended questions were added to still get as diverse a feedback as possible. Because of time restrictions and both the interviewees working in different cities around Finland at the time the interviews needed to be conducted, all of the interviews were done via email. A set of seven questions was created:

1. What is the industry your company is in and how many employees do you approximately have?
2. Could your company use this checklist to audit the ethicality of your supply chain, in other words does the checklist work in real life?
3. Does the audit make you notice or be more aware of possible ethical problems in supply chain management?
4. Was the checklist too long or too difficult to use or understand?
5. Was the checklist comprehensive enough for the whole supply chain?
6. Pros of the audit.
7. Cons of the audit.

These questions were chosen to chart the functionality of the audit in real life. The interviewees had different positions in the companies they represented, like CEO or supply managers, but all of the respondents have detailed knowledge on how the supply chain in that company is constructed and works.

Because all of the interviewees had Finnish as their first language, all of the interviews were also conducted in Finnish. The original audit and interview questions, written in English, were translated for the respondents to assure they would be fully understood, and to give the respondents the best chance for in-depth analysis of the questions and the audit. The original English version of the audit was included in the emails as the preferred option for companies to look at.

An email based interview method was chosen over for example phone or Skype because it allowed the respondents more time to think about the answers and the audit for example with the possibility of editing the answers multiple times before sending, thus guaranteeing more in-depth and constructive answers suitable for this topic (Gibson, 2010).

## **4. FINDINGS**

This part of the thesis will focus on the findings of the email interviews. The companies and interviews will be introduced in the order they were conducted, and they will be kept anonymous. The interviews were conducted to get feedback on the audit, which will be discussed in the next section, Discussion and Analysis.

### **4.1 Company A**

Company A is a company focused on producing, marketing and selling water treatment devices both in Finland and in other European countries. In addition to having international customers, the company also has international suppliers from around the world.

The respondent from Company A says that they could use the checklist to check the ethicality of their supply chains. They also feel like the checklist made them ponder all of the different parts of their supply chain, and how all these different parts face unique ethical problems. The respondent does not see any problems with understanding the questions or the wording of the audit. They do not see the audit as being too long, but they feel it still manages to encompass the possible challenges facing the whole supply chain. The respondent notes that the clarity of the audit is a benefit.

According to the respondent, one possible thing to reconsider is the numbering of the answering possibilities on the Likert scale. The respondent first thought that answer number 5 would be strongly agree, when it was actually the opposite.

## **4.2 Company B**

Company B is a small company focused on selling sportswear and accessories. They employ 7-10 people at a time. The company operates a store in Finland, and has Finnish and international suppliers supplying the sold goods.

The respondent from Company B states that in theory, they could use the audit, but being such a small company the possibilities of actually investigating the supply chain further are nonexistent and very arduous. The audit does make them reflect on possible ethical issues in the supply chain, especially those they can really impact, so the actions of their own company. The respondent thinks the audit includes all the most relevant points, is appropriate, and says the biggest benefit of the audit is that it makes them really think about the possible ethical issues of the supply chain.

The respondent points out that in the section “Commitment to Employees”, there is a question that includes both the respondent’s own company and the possible collaborators. They comment that the same answer might not apply to both the questions, especially if you do not have the resources to know what all of your collaborators’ situations are, and refer back to their previous answer on the company being so small and thus having limited resources to investigate.

## **5. DISCUSSION AND ANALYSIS**

This part of the thesis focuses on analyzing the findings of the interviews and the literature review, and discussing possible limiting factors noticed during the research and data gathering processes.

### **5.1 Contents of the Audit**

Even with the existing literature on ethical supply chain management being relatively lacking, the companies interviewed perceived the contents of the audit to be comprehensive enough. The factors and activities of the supply chain recognized to be of ethical importance in the existing research seem to be relevant. Highlighting the more common ethical issues, like slavery, child labor and employee and product safety together with the concerns raised by supply chain managers and other business personnel themselves, like supplier-buyer relationships, trust, and ethical codes of conduct proved to be a successful way to assemble the audit. These factors combined with the six Ts framework created an adaptable and encompassing audit. Overall, the interviews and the audit supports all the prior research done on ethical supply chain management.

Because only two interviews were conducted, both with Finnish respondents, it is hard to say whether this audit would work in other countries. Ethicality is such a multi-leveled subject influenced by personality traits, country of origin, age, religion and gender (Saunders & Lockridge, 2010). Consequently, people's views on ethical issues differ from country to country and person to person. Even though the interviewees perceived the audit to be working, it might not work for companies located abroad. However, the literature that creates the basis for the audit encompasses different cultures and origins, thus it can be deduced that the audit could work globally, at least to an extent.

A possible contributor to the contents of the audit could be the researchers own personal views on ethics. For this reason, the content is presumably at least a little biased, even though the main contributor was secondary sources in the form of prior research done by others.

None of the interview respondents commented on having issues related to sustainability be a part of an ethical audit. This furthers the presumption made in previous research that sustainability and ethicality are tightly intertwined concepts. In the modern world, ethically conscious businesses need to also be environmentally and socially conscious.

## **5.2 Usability**

It seems that the choice of using a Likert scale in the audit was a good decision, because the audit got praise on being clear to use and understand. The added colors helped differentiate between questions and answers.

Both the existing literature and the interviews conducted point out that the audit is more beneficial for medium-sized or large companies, because they have more resources to investigate their supply chain partners and their own actions. This was to be expected. Still, Gonzales-Padron (2016) argues that companies lacking the resources to audit all of their suppliers could prioritize and check only the partners of high importance, so the audit can be used by small companies too. Whilst smaller companies tend to struggle with gaining information, larger companies face the problem of a bigger supply network, and thus it is harder for them change the supply chain (Seal, 2013). These points seem to argue with the fact that audits are usually thought to be a relatively inexpensive way to check performance.

## **5.3 Benefits and Effectiveness of the Audit**

The biggest benefit of this audit seems to be that it gets people thinking about ethical issues in the supply chain. This is an achievement in itself, because knowledge and awareness are a strong base for ethical decision-making. Getting the right people to realize possible ethical dangers in the supply chain could be vital for both bigger and smaller companies. The other benefits mentioned in the interviews follow the information found in the literature review. The audit is a straightforward way to check the supply chain, and it is quite inexpensive to check a company's own performance. The costs start rising if all of the supply chain partners are checked as well.

One of the objectives of this research was to figure out how ethicality can be identified in the supply chain. The respondents of the interview seemed to think the audit to be an acceptable way to measure ethicality. However, because this was the only way presented to the interviewers, it is impossible to say whether an audit and this audit specifically, is the most efficient way to go forth measuring ethics in the supply chain.

#### **5.4 Changes Made to the Audit**

Based on the interviews, a few smaller details on the audit were changed. Respondent from Company A was a bit confused with having the answer “strongly agree” be answer number 1 and not number 5. Looking at prior research done on the numbering of Likert scales, there seems to be no consensus on which would be the more beneficial way. Thus, Likert scale values were switched to be as the respondent first thought they would be, strongly agree on the right as value 5 and strongly disagree on the left as value 1.

Another small change was made according to the suggestion of the representative of Company B. All of the questions in the section Commitment to Employees were changed to only consider the action of the company, not its partners too. This was done to remove confusion, and because like the respondent pointed out, the questions could have different answers and thus cannot be included in only one question.

For the improved final version of the audit, see Appendix 2.

#### **5.5 Limitations**

This research was faced with quite a few limitations. To start with, the aforementioned lack of relevant literature and research in the field of ethical supply chains created a bit of a dilemma when creating the audit. The questions in the audit address global ethical issues of the supply chain, but without further research, it is impossible to say with certainty that these are the most important issues supply chain managers need to focus on. A lack of prior knowledge on ethical supply chains and supply chain management on the researcher’s part is also a limiting factor.

Limitations regarding methodology include the limitations brought by interviewing only two people from two companies. Both companies were quite different, but still shared multiple similarities. For instance, both interviewees were Finnish and worked here, and thus provided quite a one-sided view when looking at the research from a global perspective. Because of the lack of primary data conducted, only rough conclusions can be made of the functionality and content of the audit. Translations could also prove to be limiting factor, because not all of the questions and answers could be directly translated.

The questions presented to the interviewees were only focused on the contents of the audit. To get a better picture of its functionality, the companies should have been interviewed more thoroughly, starting with asking whether the companies even felt that they needed to check the ethicality of their supply chains. Another method of interviews could have given different results as well, and having less structured questions and more time could have given more room for the interviewees to analyze and comment on the audit.

Choosing a qualitative method of research prevents limiting factors of its own. It is often done on a smaller scale, which was the case in this research as well. This means fewer comments and points of view, and a restricted pool of information. There is also a possibility of the answers and insights gained to be biased or dishonest. In this research, these were minimized for example with keeping the respondents anonymous and interviewing people without any personal contacts to the interviewer.

To conclude, in order for this research to be truly accurate, more primary and secondary data is needed. Multiple interviews need to be conducted in different countries around the world, and because there is no global clear list of shared ethical principles, one needs to be created for the contents of the audit to be completely relevant.



## **6. CONCLUSION**

### **6.1 Conclusions**

This research was done to learn more about ethics in the context of supply chains. An audit for companies of any size or origin was created based on existing research and knowledge of the actions in supply chains posing the biggest ethical vulnerabilities. The validity of the audit was checked in two interviews with companies dealing with multi-leveled and international supply chains.

According to both the secondary and the primary research done, using an audit to check the ethicality of a supply chain is possible, and the audit can be done in a way to include the main issues regarding the whole supply chain without limiting the variety of companies that could use it. Different companies gain distinct and diverse advantages from using the audit. Smaller businesses with less resources benefit from the knowledge and awareness the audit bring on their own actions, whilst bigger companies can better check their own and their partner's activities. In conclusion, the audit created can act as a base and a summary of the most pressing ethical issues, and can be used to check both the company's own and their partners' state of ethicality in the supply chain.

### **6.2 Implications for International Business**

Globalization is destroying supply chain boundaries at a fast pace. More and more companies are outsourcing parts abroad for different reasons, for example knowledge or cheapness. Therefore, it is more common now than ever that supply chains are international, and thus supply chain management faces a new set of challenges. Different cultures, business practices, and laws can create difficult ethical dilemmas, and without the relevant knowledge and awareness of these possible issues, companies could face huge losses.

Having an audit that includes the general ethical issues in the supply chain as reference when choosing supply chain partners can make it immensely easier for companies to outsource abroad or work with foreign partners, and reduce the risk of the company values and ethical views being compromised.

### **6.3 Suggestions for Further Research**

The lack of research on ethical supply chain management proved out to be evident when this topic was researched for the audit. Ethical matters are starting to be at the forefront of stakeholders' minds ranging from conscious customers to shareholders and governmental agencies, and thus it is important that the topic is examined more in the near future. Theories regarding ethical decision-making and decision-making in general could also be looked at from the perspective of supply chain managers in order to broaden the knowledge of the topic.

Like Simangunsong et al. (2016) pointed out in their research, there is still a pressing lack of research done on how different cultures view what is considered unethical practices. This topic could prove crucial, especially with the constantly growing global supply chains. Managers and other decision makers in supply chains would benefit immensely of understanding different cultural views on ethics regarding the supply chain.

Finally, the benefits of audits have been researched quite extensively, but research regarding possible benefits and drawbacks of ethical audits have not been investigated enough. There is also room for research on the topic of whether an audit is the best way to check ethicality, especially regarding supply chains.

To conclude, in order to better ethical audits of supply chains, there needs to be more precise knowledge on ethical decision-making, the effect of cultures on ethical practices in supply chains, and the effectiveness of using audits to check ethicality. Thus, future researchers need to interview and investigate supply chain managers and workers on ethical problems from companies around the world and from different industries on a larger scale, to find out the actual biggest contributors to overall ethical performance. In other words, the most important ethical problems in the supply chain need to be identified through new primary research, and not only through secondary research.

Another possibility for future research is to create unique audits for different industries, and not just one all-encompassing audit. This would mean choosing a specific industry and interviewing multiple international companies to find out the specific ethical problems the companies in that industry usually face. Future researchers could also take the audit created

for this research, and test it with more companies from around the world to get more accurate results on its usability, benefits, and drawbacks.

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## APPENDICES

### Appendix 1 - An Audit for Ethical Supply Chain Management – Original

The aim of this audit is to be used as a way for companies to identify the current state of ethicality in their supply chain. The respondent is advised to go through the questions as quickly as possible to ensure honesty in every answer.

Please answer each question using the Likert scale below, and check the box that applies to your company. The more agree/strongly agree answers, the more ethical the supply chain is. This audit can also be used to check partners' performance.

**1 = Strongly Agree, 2 = Agree, 3 = Neutral, 4 = Disagree, 5 = Strongly Disagree.**

#### Commitment to Ethical Corporate Culture

	1	2	3	4	5
We have a code of conduct that encourages ethical behavior and decision-making.					
Managers, executives and other people in higher positions encourage ethical behavior and act ethically themselves to show example.					

#### Commitment to Employees

	1	2	3	4	5
Every employee is treated equally and objectively.					
Slavery is not tolerated in this company or in other companies that are part of the supply chain.					
Child labor is not tolerated in this company or in other companies that are part of the supply chain.					
Every employee is paid a salary that is competitive in the region they work in and fits the demands of that particular job.					

### Commitment to Partners

	1	2	3	4	5
We audit our partners in order to check they follow the same guidelines in ethical supply chain management as we do.					
We choose our partners in a fair and legal way.					
We practice Fairtrade.					

### Commitment to Transparency and Communication

	1	2	3	4	5
We communicate regularly and honestly with our stakeholders.					
We communicate regularly and honestly with our customers.					
We communicate regularly and honestly with our partners.					
We communicate regularly and honestly with our employees.					
We practice total transparency in all supply chain processes and actions.					

### Commitment to Safe Products and Procedures

	1	2	3	4	5
Every employee working on any part of our supply chain has a safe working environment.					
Our every product is safe for customers to use.					
We can attain information on where every part of our product is coming from.					

We follow both general and industry-specific safety regulations.					
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### Commitment to Knowledge

	1	2	3	4	5
We are committed to continuously educate our employees on ethical decision-making.					
We are committed to sharing possible problems noticed in the supply chain with our partners.					
We are aware of the different global lists of principles regarding ethics in the supply chain, and apply their points in our supply chain.					

### Commitment to the Future

	1	2	3	4	5
We are committed to continuously monitor the ethical progress of the supply chain.					
We conduct internal and external audits regularly.					
Our goals for the future include achieving and maintaining an ethical supply chain.					

### Commitment to Following the Law

	1	2	3	4	5
Every contract in the supply chain is made according to the contract law.					
We follow competition laws.					
We follow consumer laws regarding consumer protection, safety etc.					
We follow labor laws.					

## Commitment to the Environment

	1	2	3	4	5
We are committed to using environmentally friendly transportation when possible.					
We are committed to using sustainable materials and components.					
We are making efforts to stop deforestation and climate change by our own actions.					
Harmful chemicals are not used in any part of the supply chain.					
Renewable energy sources are used as much as possible.					
Waste is managed in an efficient and environmentally friendly way.					
The company is committed to following environmental agreements.					

## Appendix 2 - An Audit for Ethical Supply Chain Management – Modified Final Version

The aim of this audit is to be used as a way for companies to identify the current state of ethicality in their supply chain. The respondent is advised to go through the questions as quickly as possible to ensure honesty in every answer.

Please answer each question using the Likert scale below, and check the box that applies to your company. The more agree/strongly agree answers (answers 4 & 5), the more ethical the supply chain is. This audit can also be used to check partners' performance.

**1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree.**

### Commitment to Ethical Corporate Culture

	1	2	3	4	5
We have a code of conduct that encourages ethical behavior and decision-making.					
Managers, executives and other people in higher positions encourage ethical behavior and act ethically themselves to show example.					

### Commitment to Employees

	1	2	3	4	5
Every employee is treated equally and objectively.					
Slavery is not tolerated in this company.					
Child labor is not tolerated in this company.					
Every employee is paid a salary that is competitive in the region they work in and fits the demands of that particular job.					

### Commitment to Partners

	1	2	3	4	5
We audit our partners in order to check they follow the same guidelines in ethical supply chain management as we do.					
We choose our partners in a fair and legal way.					
We practice Fairtrade.					

### Commitment to Transparency and Communication

	1	2	3	4	5
We communicate regularly and honestly with our stakeholders.					
We communicate regularly and honestly with our customers.					
We communicate regularly and honestly with our partners.					
We communicate regularly and honestly with our employees.					
We practice total transparency in all supply chain processes and actions.					

### Commitment to Safe Products and Procedures

	1	2	3	4	5
Every employee working on any part of our supply chain has a safe working environment.					
Our every product is safe for customers to use.					
We can attain information on where every part of our product is coming from.					



We follow both general and industry-specific safety regulations.					
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### **Commitment to Knowledge**

	1	2	3	4	5
We are committed to continuously educate our employees on ethical decision-making.					
We are committed to sharing possible problems noticed in the supply chain with our partners.					
We are aware of the different global lists of principles regarding ethics in the supply chain, and apply their points in our supply chain.					

### **Commitment to the Future**

	1	2	3	4	5
We are committed to continuously monitor the ethical progress of the supply chain.					
We conduct internal and external audits regularly.					
Our goals for the future include achieving and maintaining an ethical supply chain.					

### **Commitment to Following the Law**

	1	2	3	4	5
Every contract in the supply chain is made according to the contract law.					
We follow competition laws.					
We follow consumer laws regarding consumer protection, safety etc.					
We follow labor laws.					

## Commitment to the Environment

	1	2	3	4	5
We are committed to using environmentally friendly transportation when possible.					
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Renewable energy sources are used as much as possible.					
Waste is managed in an efficient and environmentally friendly way.					
The company is committed to following environmental agreements.					

